Forbes insights

Turning Crisis Into Opportunity

Five Insights Into The Lending Industry's Accelerating Pursuit Of The Digital Mortgage

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Single-Family

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Preface

The mortgage business is soaring amid low interest rates and pandemic-driven demand for low- to no-touch services. In response, the lending industry is accelerating its pursuit of the end-to-end digital mortgage.

Introduction

Though the mortgage industry was in hot pursuit of digitization well before the arrival of the Covid-19 pandemic, the crisis and its associated effects are accelerating those efforts.

In last year's collaboration between Freddie Mac and Forbes Insights and Freddie Mac—well before the arrival of Covid-19—82% of banking and lending executives surveyed said digitization was already underway with the goal of transforming key home mortgage processes. In this year's iteration of a similar survey, 85% of firms describe their efforts at mortgage process digitization prior to Covid-19 as aggressive or very aggressive.

But then came the one-two punch of a global pandemic followed closely by historically low interest rates. Now consumers and government officials are demanding more "sterilized" business practices. Meanwhile, much more of the workforce is now either required (by lockdown rules) or enabled (in agreement with their employer) or both to work remotely.

On top of it all, the industry is facing unprecedented demand. The net result is that—driven by consumer, regulatory and workforce needs as well as a surge in business—mortgage providers are accelerating what had already been keenly-focused efforts to embrace digital technology.

INSIGHT I

The Mortgage Industry Is On An Upswing

Covid-19 slammed the brakes on the U.S. and global economies. But while commerce overall is down, certain sectors are experiencing strong growth. Among the most notable is the U.S. mortgage industry.

The State Of The Mortgage Market

"We are very busy," says David Smith, managing director and head of U.S. mortgages at Citigroup. "With interest rates so low you'd expect a lot of refinancing but also, it's a very strong purchase environment, so it's a very interesting year."

Business is similarly soaring at online lender nbkc Bank. "This rate environment is highly favorable for digital mortgages [and refinancings]," says Jen Gulvik, chief marketing officer and executive vice president. "March 12 was our 'Covid real' date, when we became a remote workplace, and since then we've added 50 new employees to our base of 350."

Gulvik maintains that "being an online lender is an advantage in the Covid-19 environment." But she quickly adds, "our growth had already been phenomenal. We had a record year in 2019—13,000 loans totaling $4.5 billion, a 54% increase over 2018. And we're 68% higher this year. Every quarter we're setting records. So you ask how is business? It's nuts!"

Driven by historically low interest rates, the U.S. banking and mortgage industries are experiencing high growth across areas including existing home sales, single-family new home construction and refinancing.

For example, for July 2020, the National Association of Realtors(NAR) reported a 24.7% increase in existing home sales characterized as a "strong upward trajectory marking two consecutive months of significant sales gains." Meanwhile, NAR also reported a 16.6% month-over-month increase in pending home sales—a critical leading indicator—with only the Northeast region showing no increases year-over-year.

These statistics plus the overall survey reinforces the view that while many other sectors have been hard-hit and overall un- and under-employment remain relatively high, the mortgage industry appear to be prospering. For example, 78% of respondents say their firm's overall revenues—mortgages plus other banking activity—have increased (57%) or stayed firm (no change: 21%). Looking solely at the mortgage business, 66% have seen revenues either increase (37%) or remain firm (29%)—surprising amid any economic downturn.

The survey reinforces the view that while many other sectors have been hard-hit and overall un- and under-employment remain relatively high, the mortgage industry is actually prospering. For example, 78% of respondents say their firm's overall revenues—mortgages plus other banking activity—have increased (57%) or stayed firm (no change: 21%). Looking solely at the mortgage business, 66% have seen revenues either increase (37%) or remain firm (29%)—surprising amid any economic downturn.

Even those in the mortgage industry reporting lower performance, just 34%, haven't seen significant dips in revenue. Most declines are minimal and certainly well below what might have been expected given the scale of the downturn. That is, 44% of this group say the decline is 5% or less, 34% say the decline ranges from 6-10% and just 13% indicate a decline from 11-15%.

Business is soaring:

In spite of lockdowns in the US, 78% of respondents say their firm's overall revenues have significantly increased (57%) or stayed the same (21%).

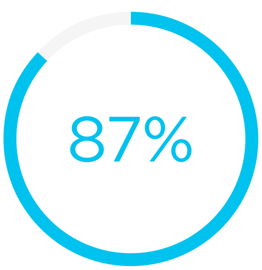
INSIGHT II

The Pandemic Is Accelerating The Digitization Of Mortgage Processes

Pursuing streamlined workflows, reduced costs and improved customer experiences, the banking industry at large has been digitizing for some time.

However, overall bank digitization efforts have been more focused on their broader business than on mortgage processes.

Specifically, 76% describe their overall digitization progress for their whole institution as significant (55%) or fully end-to-end (21%). But that figure falls to just 45% for mortgage processes—38% significant and just 8% end-to-end.



87% say that the Covid-19 crisis is proving a powerful catalyst for digitization of their firm's mortgage processes.

However, in terms of digitizing mortgage processes, the pandemic is proving to be a powerful accelerant. For example, 91% agree or strongly agree that customer expectations for a more robust digital mortgage experience are rising dramatically as a result of the Covid-19 crisis. Note that only a third of lenders say they were either reasonably well-prepared (21%) or extremely well-prepared (11%).

Regardless, mortgage lenders are experiencing a significant channel shift from in-person to virtual. For example, 68% are seeing a decline in demand for in-person experiences. They are meanwhile seeing a mirror image increase in website (88%) and mobile interaction (77%). Moreover, 64% agree or strongly agree that social distancing—including wearing masks and limited human contact—will become a permanent element in commercial interactions and change how people conduct business in the future.

Bottom line, 87% agree (43%) or strongly agree (44%) that the Covid-19 crisis is proving a powerful catalyst for digitization of their firm's mortgage processes. Amid these accelerating efforts, lenders are focusing on several areas, including pre-qualification/application/processing, underwriting/servicing and loss mitigation (see table).

Today's Acute Focus Areas

Pre-qualification, application, processing	76%
Underwriting, closing and servicing	73%
Loss mitigation	68%

BMO Harris Leveraging A Third Party Platform To Accelerate Digitization

Q&A with Tom Parrish, BMO Harris Bank's head of retail lending product management

How important is digitization to your mortgage business?

Digitization of the mortgage business is very important for our customers and our business. [Our customers] expect greater digitization in the mortgage process just as they do with other experiences. From a business perspective, it helps improve efficiency through reduced operational cost and increased back-office productivity.

What's your progress to-date?

Some of the steps we have taken include the digitization of the application along with electronic submission of required documentation both up-front and throughout loan origination. This includes electronic delivery of documents and electronic communication to the customer throughout the origination process. We have also integrated electronic communication to the customer for our appraisal vendor to allow the customer to electronically schedule an appraisal.

Do you feel the Covid-19 outbreak is accelerating efforts toward digitization?

Yes. We expedited the launch of our e-closing pilots for home equity loans as well as refinances to help meet customers' needs for digital banking and financing solutions. We are currently piloting Blend Close, [a third-party platform] which provides a consistent digital experience for the customer that extends from application all the way through close. They can preview documents before closing appointments and get questions answered via the educational resources within Blend. And when additional help is needed, Blend's Co-Pilot feature allows BMO lenders to provide direct support.

Additionally, we are looking to expand the Blend Close functionality to allow customers to choose their closing method and schedule the time which is most convenient for them. Finally, we are looking at other aspects to digitize the experience including collection of the application deposit fee, digital rate lock functionality and increased options for status notifications including via text message.

What about back-office processes? How digitized are your processes end-to-end?

We continue to look at ways to automate back-office processes, including further automation in our workflow to make transactions more efficient and utilizing robotics and optical character recognition (OCR) technology to improve back-office efficiency.

What are the challenges/opportunities going forward?

Two of the biggest challenges and opportunities we have going forward are to better leverage internal bank data and to further streamline the process of getting [what we need from] our customers so we can move through applications more quickly. Furthermore, because many customers have relationships across a number of financial institutions, we need to look for ways to make it easier and faster to aggregate a view of their accounts without having the customer provide authentication for each institution.

INSIGHT III

Firms Are Pursuing Both Front- And Back-Office Digitization

Due to customer demands for zero-touch experiences—and government lockdown orders limiting in-person interaction—Covid-19 is forcing lending institutions to prioritize their front-office digitization.

But at the same time, the sheer levels of surging business drive the parallel need to streamline processes and control costs.

Consequently, lending institutions are moving rapidly to digitize both their front and back offices. And certainly, the ultimate goal is an end-to-end integration between the front- and back-office mortgage processes. But for now, lenders are looking at mortgage process digitization in terms of front- and back-office efforts:

Digitizing The Front Office

In terms of front-office efforts, 63% say they have been able to adjust operations to provide a limited touch (50%) or zero-touch (13%), end-to-end experience for consumers in terms of customer-facing digital processes.

Indeed, groups like nbkc bank are making great strides in the pursuit of the fully digital customer experience. "We try to do as much as possible online," says nbkc mortgage investor specialist Tamara West. "But there have always been limitations by state, municipality or county and so it was often this sort of middle ground where you did the majority of applications/processing/closing digitally but then you might need to have the closing documents notarized in person."

"But what's exciting now" continues West, "is the acceleration of e-closing and e-delivery of loans. We have been working to expand e-closing for quite a while. Now with Covid, no one wants people in their houses or offices. And so what's happening, I've never seen legislation moving so fast."

Not every jurisdiction is on board—yet—says West. "But since March we've seen a handful of states for whom e-closing was just not a priority and how suddenly it became an emergency. That's unprecedented."

Citi's Smith seconds this development. "We're seeing more states and municipalities taking up rule changes," says Smith. Prior to the pandemic, "very few jurisdictions allowed remote notarization, which precludes the use of e-sign." But governments are recognizing that this is important to their constituents, "so they're adopting legislation to allow it."

Among survey participants, at present, only 1% indicate the ability to offer a totally digital mortgage experience nationwide—though these respondents are more likely saying they can provide a digital experience in 100% of the jurisdictions where they operate (as there are still many locations that inhibit a fully digital closing).

However, 10% of lenders say they can offer a totally digital consumer mortgage experience in certain markets—rising to 14% among online lenders and to 20% of those who are aggressively pursuing digital.

Finally, 39% say they will be able to offer an end-to-end digital experience—again only in markets where this is permitted—within six months. But 44% say this will take from six months to one year while 5% say all of this will require from a year to 18 months.

Digitizing The Back Office

Today, a mere 1% say their back offices are fully digital nationwide, while 5% say theirs are fully digital in certain markets. Going forward, 19% say they will achieve a totally digitized back office within six months. Nearly half (48%) say such efforts will require six months to a year. More than a quarter (27%) will require a year to 18 months.

nbkc bank offers several examples of how front office tools can mesh with the back office. "One of the exciting innovations is leveraging third party data," says West. With mortgage applications in the past, the customer had to go searching for tax returns and bank statements. "But now we can pull all of that for them, we already have it. Disclosure is no longer 300 pieces of paper and 500 signatures—we have what we need in a few minutes."

The group is also running an array of pilots. For example, continues West, "we're working with a company called ProPair using machine learning (ML) to improve how we match prospects to a loan officer." The system looks at a wide range of loan metrics and other data points to understand which loan officer is the most successful with which sort of loan or prospect. "So this is a way of improving the loan officer's success while also improving customer experience," says West.

Citi In Pursuit Of The 100% Digital Mortgage Experience

Q&A with David Smith,
Citi's head of U.S. mortgages

What's going on with digitization?

Digital tools are now table stakes and, especially during the pandemic, we're seeing many more clients coming to us digitally. Fortunately, we've been working on digitizing for several years, so we have a head start.

So you're seeing a channel shift?

Very much so, especially in Citi's retail bank, which is home to our mortgage business.

Citibank is a relationship lender, a trusted advisor. So traditionally, the majority of our mortgage customers come through our retail branches where they meet in-person with a loan officer.

However, with the pandemic, we've shifted to a telesales environment. Customers can still speak one-on-one with their mortgage loan officer, but now they do so over the phone. Additionally, we're expanding our digital communications, which is a heightened expectation from our clients.

Are you able to offer a 100% digital closing?

The rules vary based on location, so customers can't always use e-sign to close. But with the pandemic, and more people wanting to avoid contact, we're innovating. For example, we've been able to arrange no-contact closings in which the notary and the mortgage customer stay in their respective cars and pass documents back and forth through their windows to minimize contact.

How digitized are your back-office processes?

We've invested quite a bit over the last few years, rolling out various tools. For example, our relationship management software is being better integrated with other systems, allowing for improved information sharing across platforms—to include pre-filling forms, managing applications, disclosures and signatures. This is a way for us to improve the customer experience while being more efficient.

Additionally, we're currently piloting a fully digital process for all customer interactions. This means that regardless of how the customer engages us—be it by mobile, on our website or over the phone—it is all pulled into one digital system. This digital system is also integrated with third parties so that everything—credit bureau reporting, appraisals, tax returns—the entire interaction becomes digital.

Any other digital initiatives?

We're looking at machine learning, primarily around our control processes and in terms of better understanding customers. We also see quite a bit of opportunity for chat bots. We've been testing them with our customers in Asia, where the adoption level is very high and we've seen them to be very effective for certain types of servicing. That's something we want to eventually bring to mortgages in the U.S.

Overall, the goal is to improve the customer experience. For the consumer, it's all about ease and speed and the ability to interact with us how and when they want, which may include after hours. One way for us to be more flexible, which we're considering, is to give customers the ability to use digital self-service to schedule an appraiser by themselves at their convenience.

INSIGHT IV

The Mortgage Industry Is Embracing Remote Work

Amid Covid-19, the mortgage industry moved quickly to embrace remote work.

Before the pandemic, only a small portion of the workforce was able to perform their roles remotely. And, presumably, these workers would be allowed to do so only for a limited time or in limited circumstances. Today, however, 65% are enabling half or more to work remotely (see table).

Even amid such a dramatic shift in the workplace, 94% say the arrangements are working well (42%) or extremely well (52%). So much so that, going forward, 42% say they will actually expand remote work well beyond current levels, and 28% say they will continue to enable remote work at about the same levels.

As for the remainder, 17% say they'll enable remote work, but at a reduced scale, after the pandemic passes. Another 4% will continue at a significantly reduced scale, and 8% expect to revert to the balance of remote/in-person working that existed prior to the crisis.

The Mortgage Industry Embraces Remote Working

Prior to and now following the arrival of Covid-19: what percentage of your staff was/is able to work remotely to a significant degree?

	Pre-Covid-19	Today
None	7%	0%
1% to 5%	22%	1%
6% to 10%	39%	2%
11% to 25%	29%	1%
26% to 50%	4%	31%
51% to 75%	0%	40%
76% to 100%	0%	25%

Percentages do not sum to 100% due to rounding.

Firms See A Wide Range Of Initiatives Where Technology Can Fuel Performance

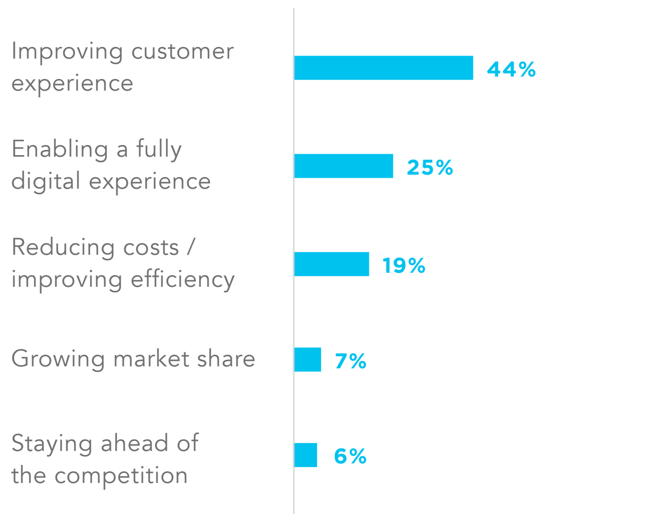
The net result of the twin drivers of surging business and responding to and learning from Covid-19 is an expanded focus on digitization.

An overwhelming 91% agree that technology played a key role in enabling their firms to meet the needs of customers and partners (without interruption) during this crisis. Moreover, 85% say experience gained during this crisis is leading them to prioritize investment in technology and innovation. Finally, 87% say demonstrable benefits of their technology investments to-date are driving even more investments for the future.

Going forward, key goals for those who are accelerating digitization efforts include improving customer experience, enabling a fully digital experience, reducing costs/improving efficiency, growing market share and staying ahead of the competition (see table).

Of those taking steps in customer experience (the most widely cited key goal), the top three objectives are increasing personalization (58%); enabling online, in-person and mobile options for more processes (50%); and creating new products and services (46%).

Primary Focus Of Digitization Efforts



Percentages do not sum to 100% due to rounding.

Achieving Their Goals

To obtain their digital objectives, executives indicate a wide array of ongoing actions including greater technology spend (52%), developing better security around remote processes (52%) and stimulating a greater embrace of innovation (43%—see table).

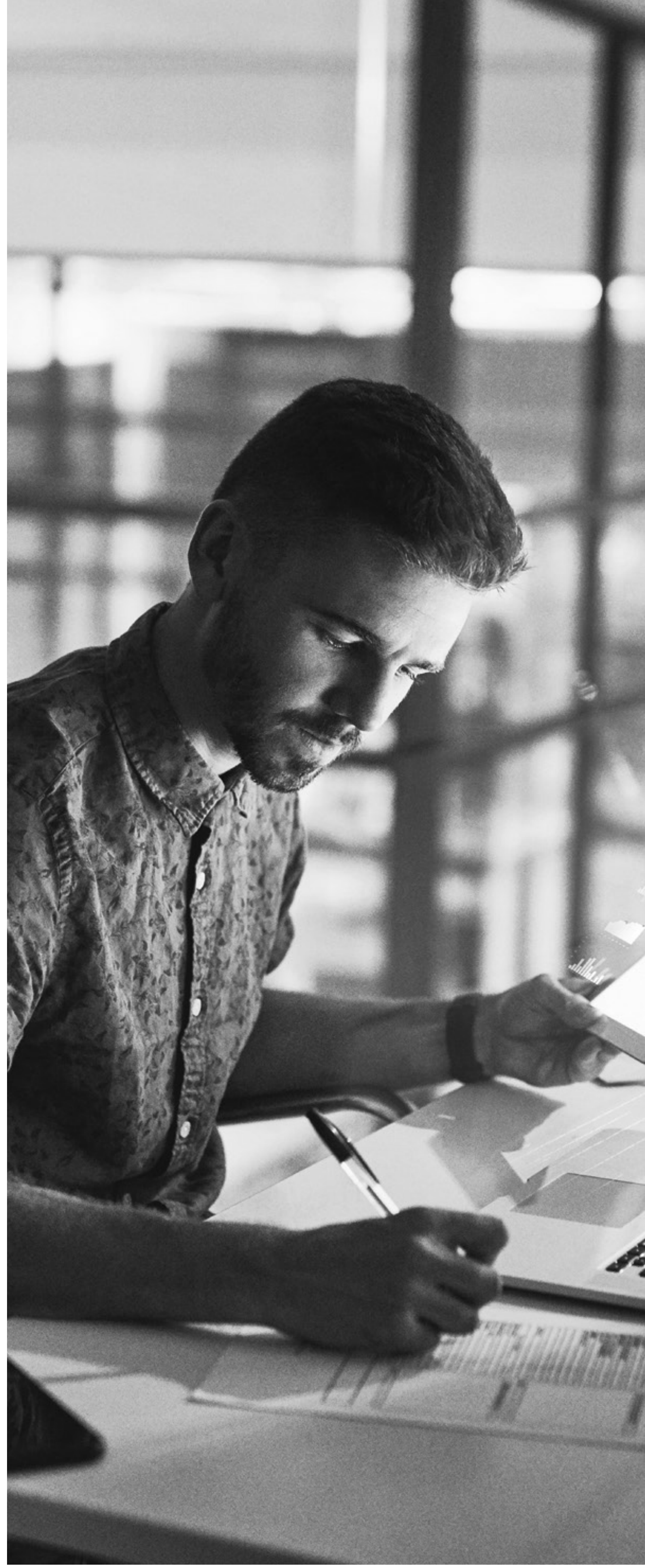
Key Actions To Accelerate Digital Mortgages

Increase technology spend	52%
Improve security around remote processes	52%
Greater embrace of innovation	43%
Accelerated technology development efforts overall	40%
Additional staff training and/or change management	40%
New or expanded use of agile/lean/ DevOps—or similar technology development approaches	38%
More comprehensive contingency planning	37%
Enabling more staff to work remotely	37%
Expanded hiring of tech-savvy talent	36%
Closer partnership with external technology providers	26%

Within this broader framework, executives say they are also greatly expanding their use of today's most advanced technologies. For example, today 44% are using machine learning or advanced analytics—but the figure rises to 87% within 18 months. Similarly 17% are today using robotic process automation (RPA). But in this case, the number surges fourfold to 69%.

The Use Of Advanced Technologies Is Surging

	Today	Within 18 Months
Machine learning/ advanced analytics	44% (66% "online" lenders)	87%
Robotic process automation	17%	69%



Ultimately, businesses say their investments are generating significant returns from their technology investments to-date. Key benefits include improved customer experience, increased efficiency and better decision making. But respondents also report significant improvements in new product innovation, greater market share and reduced risk. Note that those self-described as digitally aggressive report significantly greater benefit across all categories examined. Early investments in and progress toward digital mortgages place these firms at a significant competitive advantage.

Reviewing the whole digital mortgage space, nbkc bank's Gulvik maintains that "customer expectations are now changed forever. More people will be choosing online, digital options in more aspects of their lives. Which is great for us because our focus at nbkc bank is on continued tech-driven innovation that improves the total customer experience in banking."

Consumer behavior, Gulvik adds, "is forever changed to rely more heavily on digital commerce and experiences."

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	Overall[1]	Firms Who Are Digitally Aggressive[2]
Improved customer experience	60%	69%
Increased efficiency	57%	70%
Better decision making	55%	69%
New product innovation	50%	64%
Expanded market share	50%	56%
Lower operating costs	45%	59%
Reduced cycle times	42%	51%
Reduced risk	40%	52%

[1] %=firms indicating a 4 or 5 on a 5 point scale from no benefit to very significant benefit

[2] 41% of survey respondents describe their digitization efforts prior to the Covid-19 crisis as very aggressive.

How nbkc bank Digitizes The Mortgage Experience

Q&A featuring Jen Gulvik, CMO and Tamara West, mortgage investor specialist

How would you characterize nbkc bank?

Jen Gulvik: Think of nbkc as a three-legged stool balanced by home loans, commercial lending and deposits like checking and savings accounts. We began online mortgage lending in 1999, so, our roots are digital. About three years ago, we launched digital banking for consumers and small businesses. And we're in the final stages of developing our online commercial lending platform and product offerings. So we've gone from a small community bank, with a small branch footprint in the Kansas City area, to a nationwide digital bank serving all 50 states.

We also provide banking services to other fintechs, or 'banking as a service' (BaaS) to companies. We're the FDIC bank that insures their customers' accounts and issues white-label debit cards.

How do customers find you?

Jen Gulvik: We have no boots on the ground at all. We are a 100% online lender, doing as much as possible digitally. All of our marketing is digital and we have partnerships with [a few personal finance websites] where if someone is looking for a mortgage, they [see us].

But we are also growing by word of mouth. In fact, 50% of our business is now by referral from a realtor or previous customer—and that's growing every year.

What percentage of your closings today are 100% digital for the consumer?

Tamara West: Pre-Covid, we were still working through the final details of what that process would look like, so the only electronic closings were selective cases. When Covid hit, that initiative went into overdrive. Pre-Covid less than 1% of our closings were electronic. Since Covid took hold, 57% of our closing are electronic.

Which is great for all concerned: borrowers, notaries, title companies but also regulators. Digital means everything is not only faster, but it's also much more secure—improving governance as well as making it easier to identify and correct problems. If you misapply a payment, that'll turn up instantly, for example.

What else are you doing to improve your processes?

Tamara West: Technology and innovation are core levers for nbkc. We have a department that the employees, organically, named the think tank. It's not something that's in production, it's a group whose main purpose is to posit efficiency. That is, we find better, faster, cleaner ways of doing everything from beginning to end, both in-house and customer facing.

So the think tank works with the development team as well as external vendors [plus] partners in the secondary mortgage market. What we do is look at things and say, "it would be great if it could work this way." And what it does is accelerate innovation and efficiency. Across the whole of everything. I've been doing this for 20 years, and I have never worked anywhere that had a department like this. I've seen places where they have good people, but never this sort of dedicated resources.

Conclusion

A global pandemic is driving the need for low- to no-touch services that enables more workers the ability to work from home. Add to that historically low interest rates and a real estate boom to create a surge in demand for new and refinanced mortgages.

Last year's research showed that the mortgage industry was already intently focused on digitization. But the combination of a pandemic and a mortgage boom means those efforts are today being greatly accelerated.

Certainly, those who have been most aggressive in digitization over the past year were better prepared and are already reaping greater benefits than the industry at large. But going forward, the ability to conduct all front- and back-office aspects of all mortgages digitally will likely become an industry requirement.

Consequently, all mortgage lenders need to move rapidly. Key steps needed include expanding their technology budgets, hiring new talent, forging closer partnerships with external providers or even embracing agile, lean and DevOps approaches.

No question, the industry has its leaders in digitization—firms that are well ahead of the pack. But it is over time—likely within the next 18 months—that those firms that go the furthest, integrating both front- and back-office processes, will become the industry's most successful mortgage lenders.

Methodology

The findings in this report are based on a Forbes Insights global survey of 351 executives.

Conducted in June and July of 2020 in the midst of the Covid-19 crisis, 31% of respondents are from a regional or super-regional mortgage lender, 30% from a large lending institution, 17% from a small or corporate lender, 13% from a fully online lender and 9% from a credit union.

In terms of seniority, all respondents are directors or above. Eight percent are CEOs, 17% are chief information officers (CIOs), 17% are chief technology officers (CTOs), 4% are chief marketing officers (CMOs), and the remaining 54% are other C-suite titles (4%), managing directors (4%), senior or executive vice presidents (10%), vice presidents (12%), or directors (25%)/

All firms included in the research have annual revenues of at least $500 million with 13% accruing $5 billion or more.

In addition, Forbes Insights conducted interviews with four senior executives representing three mortgage banking institutions. These include:

JEN GULVIK
Chief Marketing Officer,
nbkc bank

TOM PARRISH
Head of Retail Lending
Product Management,
BMO Harris Bank

DAVID SMITH
Managing Director,
Head of U.S. Mortgages,
Citigroup

TAMARA WEST
Mortgage Investor
Specialist, nbkc bank

Forbes Insights is grateful for our survey participants, and especially for our interviewees.

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